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C O N F I D E N T I A L TEL AVIV 002984

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PLEASE PASS TO L FOR JOANNE DOLAN AND LISA GROSH; TREASURY
FOR DAS DANIEL GLASER;

E.O. 12958: DECL: 10/14/2017
TAGS: [EFIN](#) [KTFN](#) [KWBG](#) [PTER](#) [IS](#)
SUBJECT: GOI LOOKS TO POSTAL BANK FOR CONTINUED FINANCIAL
SERVICES IN GAZA

REF: TEL AVIV 2809

Classified By: Ambassador Richard H. Jones for reasons 1.4 (b/d).

11. (C) SUMMARY: In light of the Government of Israel's (GOI) recent designation of Gaza as a "hostile territory," Israel's commercial banks announced plans to discontinue correspondent services to banks in Gaza. This decision may represent the first step in the complete termination of relations between privately-owned Israeli banks and the Palestinian financial sector, but will take at least one month to implement. Bank of Israel (BOI) Governor Stanley Fischer told the Ambassador that the GOI wants to maintain correspondent relations with Palestinian banks in order to ensure that the shekel remains the primary Palestinian currency. The BOI is currently exploring options for the state-owned Postal Bank to assume the correspondent role. END SUMMARY.

12. (C) Following a Government of Israel (GOI) Cabinet decision on September 19 declaring Gaza a "hostile territory," the Israeli commercial banks Hapoalim and Discount both announced their intentions to sever correspondent relations with Palestinian banks in Gaza. Hapoalim formally announced its decision on September 25, and Discount followed suit on October 10. The two banks currently provide all correspondent services to Palestinian banks, a critical function for the Palestinian shekel-based economy. Prior to the Cabinet decision, the banks' boards of directors were already in the process of terminating the relationship with Gaza for fear of vulnerability to civil lawsuits, after being included as co-defendants in a terror-financing case against Arab Bank (reftel).

13. (C) The immediate effect of this decision is the cessation of all Israeli banking relations with three Palestinian banks incorporated in Gaza. According to sources at the BOI, the largest of these banks, the Bank of Palestine, is expected to relocate its headquarters to Ramallah. According to Esther Deutsch, Legal Advisor for Bank Discount, Hapoalim and Discount will also not conduct any business with the Gaza branches of other Palestinian or foreign banks. Deutsch noted that it would not be simple for Bank Discount to distinguish between transactions originating in Gaza and those from the West Bank, but that it was possible. Deutsch did not discount the possibility that Gaza branches could still route transactions through the West Bank, and said there was little that could be done to prevent this. According to Deutsch, the Gaza decision is only the first step for Discount. The board of directors met on October 11

to discuss next steps toward ending Discount's Palestinian partnerships entirely.

14. (C) Boaz Radai, Vice President for Government Relations at Bank Hapoalim, explained to econoff that it would take the Israeli banks at least one month to implement the decision, due to legal and professional obligations to Hapoalim's Palestinian customers in Gaza. Radai said that Hapoalim's board of directors remained more moderate than Discount's on the question of continued business with West Bank branches, but said there were some on the board who would like to terminate all Palestinian correspondent accounts.

15. (C) David Zaken, Head of Anti-Money Laundering Banking Supervision for the Bank of Israel, said that BOI Chairman Stanley Fischer was engaged in negotiations with Israel's Postal Bank to assume responsibility for the correspondent relationship in Gaza. Fischer expressed similar views to the Ambassador earlier in the week, saying that the Postal Bank offered the most effective method for sustaining the Palestinian banking relationship. The Postal Bank is wholly owned by the GOI, and therefore has sovereign immunity before Israeli courts, and it has no foreign branches, making it immune from civil litigation abroad. Fischer confirmed that the GOI had recently reaffirmed its policy that the shekel remain the chief currency in the Palestinian territories.

16. (C) Zaken noted that despite the fact that the Postal Bank is state-owned, it is run by independent management and decisions are made by the board of directors. It is not easy, said Zaken, to convince the board to take on customers that Discount and Hapoalim are "running away from." Zaken admitted that the GOI had strong influence over the bank's management, but cautioned that the talks were only in the

early stages. Radai said that if the Postal Bank does establish a correspondent relationship with Palestinian banks in Gaza it would make it easier for Hapoalim (and Discount) to sever its remaining ties with Palestinian banks in the West Bank.

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JONES